

Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 ISO-00 DODE-00 NRC-05 NSAE-00 USIA-06

TRSE-00 ERDA-05 CIAE-00 COME-00 /036 R

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R 110100Z SEP 76

FM SECSTATE WASHDC

TO USMISSION OECD PARIS

INFO AMEMBASSY BELGRADE

C O N F I D E N T I A L STATE 224877

E.O. 11652: XGDS-1

TAGS: ESTC, COCOM

SUBJECT: EXPORT CONTROL SUBCOMMITTEE: U.S. PROBLEMS WITH
EXPORT CONTROLS IN YUGOSLAVIA

1. THE DELEGATION IS REQUESTED TO SUBMIT THE FOLLOWING
MEMORANDUM TO THE COMMITTEE THROUGH THE EXPORT CONTROL SUB-
COMMITTEE. THE OBJECT OF THE MEMORANDUM IS TO PROVIDE
BACKGROUND INFORMATION FOR THE SUB-COMMITTEE'S DISCUSSION
OF THE YUGOSLAV SITUATION DURING ITS OCTOBER MEETING.

2. THE UNITED STATES DELEGATION WISHES TO DRAW TO THE
ATTENTION OF THE SUB-COMMITTEE A SERIOUS SITUATION THAT HAS
DEVELOPED ON THE ENFORCEMENT OF EXPORT CONTROL PROCEDURES
AS THEY APPLY TO GOODS LICENSED FOR SALE TO YUGOSLAVIA.
BECAUSE OF CONTINUING PROBLEMS, WE WISH TO REQUEST PC'S TO
LOOK INTO THEIR ACTIVITIES AND PROCEDURES IN TRADE WITH
YUGOSLAVIA TO DETERMINE IF IRREGULARITIES OR SIMILAR PRO-
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BLEMS EXIST WHICH THEY CAN BE PREPARED TO DISCUSS AT THE

MEETING.

3. IN 1974, THE YUGOSLAV GOVERNMENT WAS INFORMED BY THE
USG OF VARIOUS DIVERSIONS OF U.S. STRATEGIC GOODS BY
YUGOSLAV ENTITIES. THE SUBJECT WAS SUBSEQUENTLY DISCUSSED IN
BELGRADE BY A U.S. EXPORT CONTROL TEAM, WHEN SIX KNOWN CASES

OF DIVERSION WERE BROUGHT TO THE ATTENTION OF THE GOVERN-
MENT OF YUGOSLAVIA. ITEMS INCLUDED OSCILLOSCOPES, DIE
BONDERS AND SCRIBERS FOR PRODUCTION OF ELECTRONIC COMPONENTS
BECAUSE OF THE GROWING PRODUCTION IN YUGOSLAVIA OF SOPHIS-
TICATED ELECTRONICS UTILIZING U.S. COMPONENTRY AND TECHNO-
LOGY, YUGOSLAV ORDERS FOR THE SUBSEQUENTLY DIVERTED
EQUIPMENT DID NOT SEEM TO BE QUESTIONABLE AT THE TIME THEY
WERE ORIGINALLY LICENSED. THE GOVERNMENT OF YUGOSLAVIA
DID NOT INFORM THE USG WHEN VIOLATIONS OF OUR EXPORT CON-
TROLS WERE DISCOVERED, ALTHOUGH IN THE BELGRADE MEETING
IT WAS ACKNOWLEDGED THAT CERTAIN DIVERSIONS HAD TAKEN
PLACE.

4. AT THAT BELGRADE MEETING, THE FUNCTION AND PURPOSE OF
U.S. EXPORT CONTROL POLICY AND REGULATIONS WERE DISCUSSED
IN DETAIL. THE U.S. TEAM CAME AWAY WITH ASSURANCES THAT
THE YUGOSLAV FIRMS INVOLVED IN DIVERSIONS WOULD BE INVESTI-
GATED AND, IF FOUND GUILTY, PUNISHED. FURTHERMORE, THE
YUGOSLAV GOVERNMENT PROMISED GREATER COOPERATION IN FUR-
NISHING COMPREHENSIVE PRE- AND POST-LICENSING DATA REQUIRED
UNDER USG EXPORT REGULATIONS. THE U.S. TEAM GAINED THE
IMPRESSION THAT THE YUGOSLAV GOVERNMENT WAS PREPARED, IN
COOPERATION WITH THE YUGOSLAV CHAMBER OF ECONOMY, TO ACT
DILIGENTLY IN ITS OVERALL ROLE IN EXPORT CONTROL COMPLIANCE
ACTIVITIES INVOLVING ITS TRADERS.

5. SINCE THAT MEETING IN 1974, WHILE THERE HAS BEEN SOME
IMPROVEMENT IN SUPPLYING END-USER INFORMATION AND RELATED
DATA ON THE PART OF THE YUGOSLAVS, IT HAS BEEN CLEARLY LESS
THAN OUR EXPECTATIONS. ALSO THE GOVERNMENT OF YUGOSLAVIA
HAS NOT FACILITATED OUR EMBASSY'S EFFORTS TO UNDERTAKE
DIRECT POST-LICENSING CHECKS ON U.S. ORIGIN EQUIPMENT.
FURTHERMORE, GOVERNMENT OF YUGOSLAVIA PROMISES OF REVELA-
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TION OF PAST KNOWN DIVERSIONS AND PUNISHMENT METED OUT HAVE
NOT MATERIALIZED, AND IN FACT, CASES IN WHICH WE WERE TOLD
THAT EXPORT PRIVILEGES HAD BEEN LIFTED AND FINES IMPOSED
BY THE GOVERNMENT OF YUGOSLAVIA, NEVER HAVE BEEN SATIS-
FACTORILY DOCUMENTED. THE CLIMAX WAS REACHED LATE IN 1975
WHEN THE GENERAL MANAGER OF ONE TAINTED FIRM, WHICH
ALLEGEDLY WAS FINED FOR ITS ROLE IN AN IMPORTANT DIVERSION
CASE, INADVERTENTLY ADMITTED TO U.S. OFFICIALS THAT HE HAD

NO KNOWLEDGE OF THE PURPORTED FINE OR THE CHARGES LODGED IN CONNECTION WITH THE VIOLATION. THIS DEVELOPMENT LED TO A RE-EXAMINATION OF THE PROCEDURES FOR HANDLING CASES FOR YUGOSLAVIA BY THE USG AGENCIES INVOLVED IN EXPORT LICENSING, AND RESULTED IN A DECISION TO SUSPEND APPROVAL OF LICENSING FOR SENSITIVE STRATEGIC COMMODITIES TO YUGOSLAV FIRMS WHICH HAVE A RECORD OF HAVING BEEN INVOLVED IN DIVERSIONS OR WHOSE BONA FIDES AS END-USERS ARE INADEQUATE. THI

ARRANGEMENT IS DISCRIMINATING AGAINST NOT ONLY U.S. FIRMS INVOLVED THAT ARE PROHIBITED FROM EXPORTING, BUT ALSO AGAINST SUBSIDIARIES AND SUPPLIERS OF THOSE U.S. FIRMS IN EUROPE, WHICH HAVE SUFFERED FROM THE U.S.-YUGOSLAV IMPASSE.

6. IN AN ATTEMPT TO SOLVE THIS DILEMMA, THE U.S. GOVERNMENT PROPOSED EARLY THIS SUMMER THAT ANOTHER MEETING TAKE PLACE WITH YUGOSLAV AUTHORITIES TO RE-EXAMINE THE ISSUE. WE ARE CURRENTLY WITHHOLDING ACTION ON APPROXIMATELY FIFTY (50) EXPORT LICENSE APPLICATIONS, PENDING A SATISFACTORY OUTCOME OF THESE TALKS. THIS NECESSARILY HAS A NEGATIVE EFFECT ON ORDERLY TRADE WITH YUGOSLAVIA.

7. IN SEPTEMBER WE ARE PLANNING TO SEND A DELEGATION TO BELGRADE SPECIFICALLY TO DISCUSS WITH THE YUGOSLAVS OUR VIEWS THAT THEIR EXPORT CONTROL PROCEDURES WITH WESTERN COUNTRIES MUST BE TIGHTENED TO ASSURE AGAINST TRANSSHIPMENT OR RE-EXPORT OF STRATEGIC WESTERN COMMODITIES TO EASTERN EUROPE AND THE PRC. WE WILL REPORT THE RESULTS OF THESE DISCUSSIONS TO THE SUB-COMMITTEE AT ITS MEETING IN OCTOBER, WITH A VIEW TOWARD RECOMMENDING APPROPRIATE ACTION TO BE TAKEN BY MEMBER COUNTRIES ON THE BASIS OF OUR EXPERIENCE.

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8. IN THE INTERIM, WE WOULD ENCOURAGE DELEGATES TO MAKE INQUIRY OF THEIR OWN APPROPRIATE AGENCIES, TO DETERMINE IF SIMILAR PROBLEMS HAVE SURFACED IN THEIR DEALINGS WITH THE YUGOSLAVS, WITH SPECIAL ATTENTION TO KNOWN OR SUSPECTED DIVERSIONS OF STRATEGIC ITEMS TO PROSCRIBED DESTINATIONS. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMITTEES, STRATEGIC TRADE CONTROLS, EXPORT CONTROLS, EXPORT LICENSES
Control Number: n/a
Copy: SINGLE
Draft Date: 11 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE224877
Document Source: CORE
Document Unique ID: 00
Drafter: AJREICHENBACH:ABA
Enclosure: n/a
Executive Order: X1
Errors: N/A
Film Number: D760343-1053
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760970/aaaachrx.tel
Line Count: 160
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 22 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 APR 2004 by CollinP0>; APPROVED <12 AUG 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXPORT CONTROL SUBCOMMITTEE: U.S. PROBLEMS WITH EXPORT CONTROLS IN YUGOSLAVIA
TAGS: ESTC, US, YO, COCOM
To: OECD PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006